



Summit Perspective: Crisis or Correction?

After the financial markets closed last Friday, August 5th; following an already tumultuous week in the equity markets, Standard and Poor's lowered the rating of long term US debt from AAA to AA+. The other two major rating agencies (Moody's and Fitch) maintained their AAA rating for U.S. paper. This action by S&P reflects that our government still has some serious work to do to correct the current, well-known problem of excess, unsustainable U.S. debt. As a side note, this move also seems to suggest a lack of confidence in their belief that we have the real tools to fix this issue; an issue that was exacerbated by a deficit-financed spending policy needed to support our economy through the most recent deep recession. **The big question we all have is: Are we in a mild correction? – Or are we in some serious trouble?**

First – the U.S. is not alone in its debt predicament. Many, many developed economies are facing similar issues. The recent U.S. credit rating downgrade may shock the financial markets and will likely only intensify near-term volatility; but in the long-run maybe this heightened attention to the US debt dilemma may not be a bad thing. The government will need to begin to make some tougher choices over the next few quarters to dramatically improve the overall U.S. fiscal condition – it may serve as proper notice that our politicians will certainly feel added pressure to find a suitable long-term fix.

Second – our U.S. market is very worried about the situation currently found in Europe. This uncertainty only magnifies our own concern over future U.S. market losses. The recent downturn we have found since July is proof that investors are worried about the economies of Greece, Portugal, Spain, and Italy; and that solutions will need to be addressed before confidence returns for future domestic investment in these areas by major money managers. The below VIX chart puts into perspective how severe investor reactions have been to the latest headlines. Are we over-reacting?

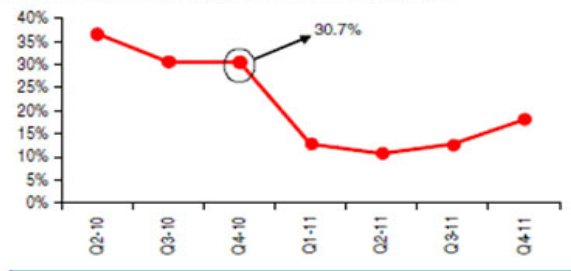


Third – I believe that the recent credit news will likely not impact the US bond market dramatically. Recent monetary policy seems to suggest that the Fed's are committed to a 'low interest rate environment' into the future. The bond market will continue to see 10-year Treasury yields below 3% for quite some time. Weird as it may be, the benchmark rates on the 10-year may actually begin to drop (even below 2.5%); suggesting that people are buying the same issues which were recently downgraded. Maybe AA+ is better than we thought considering other international sovereign paper.

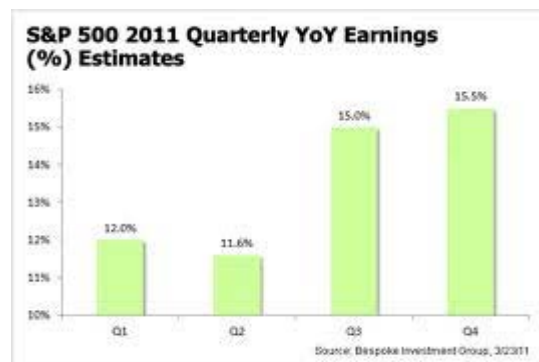
Finally – there are any number of other key factors that can lead to the current pessimistic sentiment we see today. GDP came in for Q2 at an annual rate of only 1.3%; while the earlier estimates for the previous quarter were lowered; suggesting a stagnate economy. When people become overly cautious, spending slows; creating less fuel for future growth. Unemployment and housing will not lead us into further continued recovery; but they both appear to be improving slightly. Manufacturing (our supply line) will be reduced to compensate for any consumer slowdown. But let's look at the fundamentals of our markets; and specifically the main driver of our domestic equity markets – U.S. Corporate Earnings.

Our Summit View – the recent market volatility creates investor fear; especially as we are just now returning to the levels found in early 2009. Any clear vision for a healthy economy and stellar economic growth seems more elusive with the recent activities. But when disappointment and unmet expectations descend into fear and panic, clear opportunities are also created. From the fear and panic that we have seen over the past few weeks emerge very compelling long-term value. S&P 500 earnings are beating analyst estimates by 5.1 percent, increasing at an average 17 percent rate for the quarter ending June 30. Wall Street firms project S&P 500 profits will climb 18 percent this year to \$99.42 a share according to data compiled by S&P and

Exhibit 4: SPX Quarterly YoY EPS growth rates
Actual and consensus projected YoY EPS growth rates



Source: Credit Suisse Quantitative Research



Source: Bespoke Investment Group, 3/23/11

Bloomberg (the highest level on record). With the current market trading at 12.8 times earnings for the past year this reflects the lowest valuation since the latest bull market began in March, 2009 –this represents a 22% discount to the average market multiple for the last 50+ years, according to data compiled by Bloomberg. From a valuations and earnings perspective there is a tremendous opportunity in the current market.

If you have the patience, vision, and courage to look through our current storm, you can find some great companies at some great prices. The experienced wealth management staff at Summit Asset Strategies Wealth Management has navigated through many, many volatile and uncertainly environments like our current one. We believe that growth in the U.S. economy is likely to continue – albeit at a slow, uneven pace. We estimate 2011 will end up around 1.7% GDP growth. Next year (2012) should be better- maybe 2.1%. Investor confidence will continue to flip-flop with each new economic report generated. We believe that investors should take opportunities that will be provided them over the next few months to add and build to their quality, well diversified portfolios. Our focus remains in finding opportunities; those healthy and growing corporations which seem to be global market leaders; trading at attractive (now discounted) prices.

“We have heard that the very best time to buy is when fear is the greatest.”

Michael J. Greiner
Managing Principal / CEO
Summit Asset Strategies Wealth Management